

Message Text

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C O N F I D E N T I A L STATE 047137

LIMDIS

E.O. 11652: GDS

TAGS: ETRD, EIND, CH, US

SUBJECT: IRON AND STEEL SCRAP EXPORTS TO PRC

REF: STATE034369

1. NATIONAL COUNCIL FOR UNITED STATES-CHINA TRADE
(NCUSCT) RECEIVED ON MARCH 5 FOLLOWING LETTER FROM PRC
LIAISON OFFICE (PRCLO) COMMERCIAL COUNSELOR, DATED
MARCH 4, 1974:

BEGIN TEXT:

DEAR SIR,

THE CHINA NATIONAL METALS AND MINERALS IMPORT AND EXPORT
CORPORATION LAST YEAR SIGNED COMMERCIAL CONTRACTS WITH A
NUMBER OF BUSINESS FIRMS OF YOUR COUNTRY FOR THE PURCHASE
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OF STEEL SCRAPS. IN ACCORDANCE WITH THE PROVISIONS OF

THESE CONTRACTS, SOME FIRMS, AMONG WHICH MEMBERS OF YOUR COUNCIL, SHOULD HAVE DELIVERED THE CONTRACTED QUANTITIES, HOWEVER, HAVE SO FAR FAILED TO DO SO. IN ORDER TO IMPLEMENT THE SIGNED CONTRACTS TO SHOW DUE RESPECT FOR CONTRACTUAL OBLIGATION, I AM ENTRUSTED BY CHINA NATIONAL METALS AND MINERALS IMPORT AND EXPORT CORPORATION TO REQUEST YOUR COUNCIL TO URGE THE RELEVANT STEEL SCRAPS SHIPPERS TO HONOUR THE SIGNED CONTRACTS.

PLEASE ACCEPT, SIR, THE ASSURANCE OF MY HIGHEST CONSIDERATION.

YOURS FAITHFULLY,

CHANG TSIEN-HUA

END TEXT

2. ON MARCH 5 (BEFORE WE WERE AWARE OF LETTER TO NCUSCT) DEPARTMENT (EA/PRCM) OFFICER TELEPHONED PRCLO COMMERCIAL OFFICER T'UNG CHIH-KUANG TO REVIEW SOME OF THE MATTERS--SUCH AS THE CONTINGENCY RESERVE--DISCUSSED AT THE FEBRUARY 15 INGERSOLL-CHANG TSIEN-HUA MEETING AND TO SEE IF PRCLO HAD RECEIVED ANY FURTHER INFORMATION ON SCRAP SUBSEQUENT TO FEBRUARY 15 (THE PRC SIDE IMPLIED AT THAT MEETING THAT THEY MIGHT BE BACK TO US). T'UNG INDICATED HE WISHED TO CHECK WITH CHANG; T'UNG RETURNED CALL FOLLOWING DAY. T'UNG SAID THAT CHINA NATIONAL METALS AND MINERALS IMPORT AND EXPORT CORPORATION (MINMETALS) WAS PREPARED TO ACCEPT THE "WHOLE AMOUNT" OF SCRAP THAT THE TRADE CORPORATION HAD CONTRACTED FOR WITH VARIOUS U.S. FIRMS. HE ADDED THAT MINMETALS WANTED TO RECEIVE THE QUANTITIES CONTAINED IN THESE CONTRACTS. T'UNG SAID THAT, AS CHANG HAD INDICATED FEBRUARY 15, MINMETALS EXPECTED THE COMPANIES TO HONOR THEIR CONTRACTS AND MINMETALS FOR ITS PART EXPECTED TO COMPLETELY FULFILL ITS OBLIGATIONS. DEPTOFF RESPONDED THAT--AS WE HAVE PREVIOUSLY NOTED--CONSIDERATIONS OF FAIRNESS TO AMERICAN FIRMS AND OUR OTHER FOREIGN CUSTOMERS MAKE IT DIFFICULT (AND VIRTUALLY IMPOSSIBLE IN CASES INVOLVING CONTRACTS

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WITH US EXPORTERS HAVING NO BASE PERIOD EXPORT HISTORY) TO LICENSE FOR EXPORT THE FULL AMOUNT OF THE PRC CONTRACTS ENTERED INTO AFTER JULY 2, 1973. HOWEVER, WE RECOGNIZE THAT SCRAP PROGRAM MAY CAUSE DIFFICULTIES FOR SOME COUNTRIES SUCH AS PRC AND WE WANT TO BE HELPFUL WHERE WE CAN (T'UNG EXPRESSED APPRECIATION FOR THIS). DEPTOFF PARAPHRASED T'UNG'S REMARKS BY SAYING THAT MINMETALS HOPED TO RECEIVE AS MUCH SCRAP AS POSSIBLE UP TO

THE AMOUNT CONTRACTED FOR REGARDLESS OF THE ADMINISTRATIVE MEANS USED TO MAKE THE SCRAP AVAILABLE FOR EXPORT. T'UNG DID NOT DISPUTE THIS FORMULATION. DURING THE CONVERSATION, T'UNG ALSO REFERRED IN PASSING TO CHANG LETTER TO NCUSCT. DEPTOFF INDICATED THAT HE WAS SURE THAT NCUSCT WOULD RESPOND IN DUE COURSE.

3. COMMENT: THE PRC IS CLEARLY RELUCTANT TO TAKE OFFICIAL COGNIZANCE OF SCRAP CONTROL PROGRAM AND USG ROLE IN ADMINISTERING IT. PRC OBVIOUSLY PREFERS TO STAY WITH

"A CONTRACT IS A CONTRACT" LINE. UNDER THE CIRCUMSTANCES, WE ARE DOUBTFUL THAT ANY MORE SPECIFIC REQUEST FOR A PORTION OF THE CONTINGENCY RESERVE SCRAP WILL BE RECEIVED FROM PRC. LARGE OUTSTANDING CONTRACTS, COUPLED WITH T'UNG'S REMARKS, CONSTITUTE OF COURSE A PRIMA FACIE CASE THAT PRC DESIRES AND CAN UTILIZE ADDITIONAL SCRAP. THEREFORE DEPARTMENT IS RECOMMENDING THAT 40,000 TON PORTION OF FIRST QUARTER CONTINGENCY RESERVE BE ALLOCATED TO PRC WITHOUT ANY FURTHER DELAY. (NOTE: A SCRAP ALLOCATION FROM THE CONTINGENCY RESERVE WOULD BE DIVIDED AMONG THOSE FIRMS ELIGIBLE TO SHIP TO THE PRC, IN THE SAME PROPORTION AS THE REGULAR ALLOCATION. THESE FIRMS CAN EITHER SUBMIT AN EXISTING CONTRACT TO COMMERCE FOR LICENSE APPROVAL, OR CAN ENTER INTO A NEW CONTRACT WITH MINMETALS).

4. WE ASSUME YOU HAVE NOT YET OBTAINED APPOINTMENT WITH MINMETALS TO FOLLOW UP ON OUR FEBRUARY 15 DISCUSSION WITH PRCLC. WE BELIEVE SUCH FOLLOW-UP WILL STILL BE USEFUL.

5. USLO SHOULD NOT, IN DISCUSSIONS WITH CHINESE, REFER
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TO DEPARTMENT'S RECOMMENDATION MENTIONED ABOVE. KISSINGER

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